From: Joachim Kempin
Sent: Thursday, December 18, 1997 7.10 AM
To: Bill Gates
Cc: Steve Ballmer; Paul Mantz, Jim Allchin (Exchange), Nathan Myhrvold
Subject: RE As promissed OEM pricing thoughts

—Original Message—
From: Bill Gates
Sent: Wednesday, December 17, 1997 5 10 PM
To. Joachim Kempin
Cc: Steve Ballmer; Paul Mantz, Jim Allchin (Exchange), Nathan Myhrvold
Subject: RE As promissed OEM pricing thoughts

This is a very thoughtful document I have added Jim and Nathan to the discussion since I think they will have valuable input

The document basically points out that move to NT and volume increase are our ONLY upsides for the near future. Windows will be somewhat less than $50 and NT will be somewhat less than $100 In fact the public will probably figure out those numbers over time. (Are the DSP prices under these?) ***[Joachim Kempin]*** DSP is currently at $80 for win 95 and $150 for NTW and as long as we gain share we should not lower ***[Joachim Kempin]*** . WE have some lower prices in some development countries.

I agree that for the next 2-3 years this is the best plan If we avoid the JAVA threat changing the world I think we will have some upside ı the future taking some of the OS and sending it retail/internet Getting this to be high volume is tricky but possible with a strong position I still hesitate on the leasing model but the popularity of the Net and some technical work we are doing will make that a possible approach.

One classic threat has been cloning of Windows APIs I wonder if there isn't more going on here than we know about. I know Noorda was funding 2 different efforts to clone Windows I guess the WABI code has gone into disuse There would be a lot of work and potentially patent problems for someone attacking us
[Joachim Kempin]
[Joachim Kempin] This is hard to do and hard to maintain- most customers will wan the original and any price delta is too small to worry about

The biggest threat is absolutely the JAVA phenomena and the ISV excitement that has grown up around that. We have to come in every day knowing that we have NOT solved this problem and in may ways we get weaker every day
[Joachim Kempin] If we can show the world a pass to easier programming then Java- the cross system issue might go away. I thought we had a project going on this?

One key point that is not discussed here is nonPC form factors.
[Joachim Kempin] I left this out intentially. I have been talking to a lot of people so has Steve and I share most of the below. The key missing piece is compatibility in my believe CE does not run win 32 apps, not even all 16 bit apps.Developpers what a seamless enviroment and a great programming tool and Java sells well here mostly on promisses- but it is convincing. Pricing we should just do as we did when selling DOS- get the biz and think about more $$ per units later.

After my latest trip to Japan I came away with a huge concern about non-PC devices. With great progress in screens, digital audio, digital video, speech, handwriting and the Internet there is a HUGE risk that we will not be called to provide the OS for these devices On the other hand there is upside. We have not been looking at this market properly Craig is way too optimistic. Companies are viewing JAVA as something they can adopt across a large range of devices and have it as a standard. We do not package our offering properly today. We need to get going on speech and handwriting. We need to get more flexible with various pieces. We are building a new VM to compete with the SUN VM. Our pricing for these devices will have to be low. We may find a way to make money on these devices by asking them to connect back to our "Megaserver" services.

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We have not thought about how we win ISVs for these devices in a way that JAVA will not We have not thought about what the benefit of PC affinity would be

The high price of Windows for $500 machines does make these nonPC devices more attractive I need some piece of WindowsCE that is super cheap. I think we want to get a lot of money from devices where people create and edit documents and we will get very little money from devices where people just read documents. The boundary here is very unclear. I need to brainstorm with people more on this A low price could screw us and a high price could lose us all these design wins. We need a clever solution.

Another "threat" that combines somewhat with the JAVA threat is low cost UNIX systems LUNIX in particular.

We need a much better strategy to undermine JAVA momentum than we have today. We will have to have some dramatic things and we will have to have rolling thunder SUN will have to show where SUN is going to try and make money on the JAVA phenomena. We need to have our clone work against them to be cheap but go beyond what they do

—Original Message—
From: Joachim Kempin
Sent: Tuesday, December 16, 1997 5:37 PM
To: Bill Gates
Cc: Steve Ballmer; Paul Maritz; Joachim Kempin
Subject: As promised OEM pricing thoughts

<< File. draft OEM DT OS PRICING doc >> feedback appreciated

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